

**REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON MAGARENG LOCAL MUNICIPALITY
REPORT ON THE FINANCIAL STATEMENTS**

Introduction

1. I was engaged to audit the financial statements of the Magareng Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis of disclaimer

Cash and cash equivalents

4. I was unable to obtain sufficient appropriate audit evidence regarding cash and cash equivalents amounting to R41 482 (2011: R1 000) and bank overdraft of R420 637 (2011: R1 255 562) in note 15 to the financial statements due to the following matters:

- Outstanding cheques on the bank reconciliation amounting to R832 681 (2011: R657 315) and outstanding deposits of R4 152 224 could not be substantiated.
- The difference between the bank reconciliation cash book balance and the amount disclosed in financial statements of R658 806 could not be explained.

I was unable to confirm these matters by alternative means. Consequently I was unable to determine whether any adjustment relating to cash and cash equivalents in the financial statements was necessary.

Consumer deposits

5. I was unable to obtain sufficient appropriate audit evidence for consumer debtors disclosed as R567 846 (2011: R530 197) in note 4 to the financial statements. The lack of an audit trail prevented me from substantiating the balance disclosed with sufficient appropriate audit evidence. I was unable to confirm this matter by alternative means. Consequently I was unable to determine whether any adjustment relating to consumer deposits in the financial statements was necessary.

Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence regarding property, plant and equipment disclosed as R178 425 902 (2011: R177 284 228) in note 9 to the financial statements due to the following matters:
- Infrastructure assets with an estimated value of R132 154 001 could not be physically verified due to incomplete or unclear descriptions in the asset register.
 - Assets classified as other assets and land and buildings in the asset register with the estimated value of R320 421 and R3 463 393, respectively, could not be physically verified.
 - Assets classified as buildings were demolished in the current financial year but the asset register was not updated to reflect this, resulting in an overstatement of R345 921.
7. The municipality incorrectly included assets in the asset register which belong to another municipality, resulting in an overstatement of R618 212.
8. Land registered in the name of the municipality and included in the valuation roll could not be traced to the asset register.
9. Assets were included in the asset register without the purchase price and date, resulting in the understatement of property, plant and equipment in the financial statements.
10. Land and buildings and other assets with a book value of R1 407 469 and R808 000 respectively were identified to not be in a good working condition. These items have not been removed from the asset register and classified as obsolete, resulting in an overstatement of property, plant and equipment as disclosed in the financial statements.

I was unable to confirm these matters by alternative means. Consequently I was unable to determine whether any adjustment relating to property, plant and equipment in the financial statements was necessary.

Revenue

11. I was unable to obtain sufficient appropriate audit evidence regarding revenue disclosed as R71 630 359 (2011: R80 359 602) in the statement of financial performance due to the following:
- The municipality does not have an adequate revenue system:
 - i. Supplementary valuation on properties is not performed, the property register of the municipality was not loaded on the website of the municipality for public inspection;
 - ii. Part B of the valuation roll which specifies properties that are subject to exemption, rebates, phasing-in of rates or exclusions was not updated by the municipal manager and a manual reconciliation between the rateable valuation as per the valuation roles and the rates and taxes raised through the municipal system; and
 - iii. A reconciliation to ensure that property values as per the valuation roll were correctly recorded on the debtors system was not performed.

- iv. Differences between meter books and the revenue system could not be explained. These differences exist due to errors in the meter books and were not investigated and corrected. The extent of the misstatement could not be determined due to lack of an adequate revenue system.

12. Assessment rates and service charges were understated as numerous properties were not charged for assessment rates, sewerage and refuse removal. Trade and other receivables were therefore also understated by the same amount.
13. Service charges were overstated by R9 204 428 (2011: R3 992 979) due to discrepancies between the meter books and the revenue system. This resulted in an overstatement of trade and other receivables by the same amount.
14. The municipality did not follow up on long-outstanding debtors and, furthermore, an incorrect tariff was used to calculate interest, resulting in the overstatement of interest revenue by R2 888 895 and trade and overstatement of other receivables by the same amount.
15. The municipality did not apply the correct market values for levies on properties, resulting in the understatement of revenue by R347 609 as well as the understatement of trade and other receivables by the same amount.

I was unable to confirm these matters by alternative means. Consequently I was unable to determine whether any adjustment relating to revenue in the financial statements was necessary.

Expenditure

16. I was unable to obtain sufficient appropriate audit evidence regarding general expenditure disclosed as R10 167 264 (2011: R6 849 075) in the statement of financial performance due to the following:
- The lack of controls over records management resulted in general expenditure and grants and subsidies paid, amounting to R16 230 745 (2011: R3 687 345), which could not be supported with sufficient appropriate audit evidence.
 - Adjusting journals amounting to R56 387 297 could not be validated by sufficient appropriate audit evidence.

I was unable to confirm these matters by alternative means. Consequently I was unable to determine whether any adjustment relating to expenditure in the financial statements was necessary.

Compensation of employees

17. The municipality did not prepare reconciliations between the total salaries as per the payroll system amounting to R18 306 701 and the amount disclosed in the financial statements amounting to R19 254 414 in the prior year. The comparative figure of total salaries was consequently overstated by R947 713. The municipality did not correct this error as it could not establish the contra leg of the correction. I was unable to confirm this matter by alternative means. Consequently I was unable to determine whether any adjustment relating to compensation of employees in the financial statements was necessary.

Trade payables from exchange transactions

18. I was unable to obtain sufficient appropriate audit evidence regarding trade and other payables from exchange transactions disclosed as R36 851 475 (2011: R32 460 198) in note 6 to the financial statements due to the following:

- Payables have been overstated by R4 152 223 due to unallocated receipts. This further resulted in the understatement of sundry income and accumulated surplus by R115 251 and R4 036 972, respectively.
- Payables suspense accounts amounting to R1 052 842 could not be validated by sufficient appropriate audit evidence.
- Payments received in advance amounting to R96 261 could not be validated with sufficient appropriate audit evidence.

I was unable to confirm this matter by alternative means. Consequently I was unable to determine whether any adjustment relating to trade payables from exchange transactions in the financial statements was necessary.

Consumer debtors

19. I was unable to obtain sufficient appropriate audit evidence regarding consumer debtors disclosed as R33 132 825 (2011: R37 412 953) in note 13 to the financial statements due to the following:

- The basis and underlying assumptions used in calculating the provision for impairment amounting to R41 031 661 (2011: R22 590 508) could not be provided. This also impacted the 2012 contribution to the impairment of R16 814 815 (2011: R4 057 626) disclosed under expenditure. In addition, the individual debtors were not assessed for impairment, as required by paragraph 37 of the International Financial Reporting Standard, IFRS 7 *Financial instruments: Disclosures*. I could consequently not determine whether the provision for debt impairment was reasonable.
- Sufficient appropriate audit evidence could not be provided for all applications selected for testing. I was therefore unable to confirm that these indigents exist and whether they qualified to be registered as indigents. This was also reported in the prior year.
- Consumer debtors could not be confirmed, as debtors reconciliations were not performed and no assurance could be obtained about the completeness of revenue.

I was unable to confirm these matters by alternative means. Consequently I was unable to determine whether any adjustment relating to consumer debtors in the financial statements was necessary.

Receivables from non-exchange transactions

20. I was unable to obtain sufficient appropriate audit evidence regarding other receivables from non-exchange disclosed as R5 151 115 (2011: R4 414 193) in note 14 to the financial statements. The accurate recording of receivables could not be confirmed, as sufficient appropriate audit evidence could not be obtained. I was unable to confirm this matter by alternative means. Consequently I was unable to determine whether any adjustment relating to receivables from non-exchange transactions in the financial statements was necessary.

Unspent conditional grants and receipts

21. Unspent conditional grants were overstated by R3 005 723 (2011: R4 270 040) relating to funds received for the provincial infrastructure grant project.

- The nature of this grant, as described in DoRA, entails that money is spent by the municipality and then refunded with the grant. Consequently, an unspent balance cannot

exist. Furthermore, an amount recoverable on the provincial infrastructure grant project was accounted for under unspent conditional grants and receipts.

- This should have been accounted for under trade and other receivables, resulting in an understatement of trade and other receivables and unspent conditional grants amounting to R3 005 723.

I was unable to confirm this matter by alternative means. Consequently I was unable to determine whether any adjustment relating to receivables from non-exchange transactions in the financial statements was necessary.

Value-added tax (VAT)

22. I was unable to obtain sufficient appropriate audit evidence regarding VAT disclosed as R10 090 107 (2011: R7 110 779) in note 8 to the financial statements for the difference of R9 321 895 identified between the balance as per the VAT reconciliation re-performed and the VAT balance as disclosed in note 8 to the financial statements.
23. Section 10(2) of the VAT Act states that input VAT can be claimed where the goods or services concerned are acquired by the vendor wholly for the purpose of consumption, use or supply in the course of making taxable supplies. Not all input VAT was claimed on qualifying expenses, resulting in the VAT receivable being understated by R1 191 941 and operating expenditure overstated by the same amount.

I was unable to confirm these matters by alternative means. Consequently I was unable to determine whether any adjustment relating to VAT in the financial statements was necessary.

Bulk purchases

24. I was unable to obtain sufficient appropriate evidence for bulk purchases disclosed as R15 549 692 (2011: R11 251 512) in note 25 to the financial statements as debit transactions amounting to R1 332 863 could not be supported. I was unable to confirm this matter by alternative means. Consequently I was unable to determine whether any adjustment relating to bulk purchases in the financial statements was necessary.

Depreciation and amortisation

25. I was unable to obtain sufficient appropriate evidence for depreciation and amortisation disclosed as R10 764 131 (2011: R10 307 398) in the statement of financial performance. Differences of R15 589 761 were identified between the asset register and general ledger, resulting in the understatement of depreciation and amortisation and accumulated depreciation and amortisation respectively. I was unable to confirm this matter by alternative means. Consequently, I was unable to determine whether any adjustments to depreciation and amortisation disclosed were necessary.

Inventories

26. I was unable to obtain sufficient appropriate audit evidence for inventory disclosed as R34 465 (2011: R23 986) in note 12 to the financial statements because monthly reconciliations between the inventory listings and general ledger were not prepared. I was unable to confirm this matter by alternative means. Consequently, I was unable to determine whether any adjustments to inventories disclosed were necessary.

Accumulated surplus

27. Accumulated surplus was disclosed as R161 569 385 (2011: R173 903 315) in the statement of changes in net assets. I was unable to confirm the accuracy of the net deficit as disclosed in the statement of financial performance due to various limitations on revenue and expenditure. I

was unable to confirm this matter by alternative means. Consequently, I was unable to determine whether any adjustments to inventories disclosed were necessary.

Fruitless and wasteful expenditure

28. The municipality did not have adequate systems in place to identify and record fruitless and wasteful expenditure incurred during the year, as required by section 125(2)(d) of the MFMA. The fruitless and wasteful expenditure disclosed in note 34.2 to the amount of R401 866 (2011: R74 198) was understated by R125 041. I was unable to confirm this matter by alternative means. Consequently, I was unable to determine whether any adjustments to fruitless and wasteful expenditure disclosed were necessary.

Irregular expenditure

29. The municipality did not have adequate systems in place to identify and record irregular expenditure incurred during the year as required by section 125(2) (d) of the MFMA. The irregular expenditure disclosed in note 34.3 to the amount of R229 601 (2011: R229 601) was understated by R1 601 546. I was unable to confirm this matter by alternative means. Consequently, I was unable to determine whether any adjustments to irregular expenditure disclosed were necessary.

Commitments

30. Commitments were disclosed as R11 246 321 (2011: R1 353 806) in note 36 to the financial statements. The municipality did not have adequate systems and a complete contract register in place for the detection and complete disclosure of commitments. I was unable to confirm this matter by alternative means. Consequently, I was unable to determine whether any adjustments to commitments disclosed were necessary.

Contingent liabilities

31. Contingent liabilities were disclosed in note 42 to the financial statements. I was unable to obtain external confirmations from third parties and was therefore unable to determine the possible effect of the claim in the financial statements. I was unable to confirm this matter by alternative means. Consequently, I was unable to determine whether any adjustments to contingent liabilities disclosed were necessary.

Employee benefit obligation

32. Employee benefit obligation was disclosed in note 2 as R6 731 952 (2011: R6 160 781). I was unable to confirm the valuation of the amount disclosed, as the municipality was unable to determine the reliable estimate of the accrued liability in respect of pensioners who qualify for a defined benefit pension. I was unable to confirm this matter by alternative means. Consequently, I was unable to determine whether any adjustments to employee benefit obligation were necessary.

Provisions

33. The municipality did not have adequate systems in place to maintain records of the rehabilitation of the landfill site, which resulted in the municipality not accounting for this provision in the financial statements. I was unable to confirm this matter by alternative means. Consequently, I was unable to determine whether any adjustments to provisions disclosed were necessary.

Distribution losses

34. In terms of section 125(2d)(i) of the MFMA, a municipality should disclose distribution losses in the financial statements. Distribution losses were not disclosed in the financial statements and the municipality's records did not allow us to determine the reasonable estimate due to various misstatements identified in the revenue and expenditure. I was unable to confirm this matter by alternative means.

Cash flow statement

35. Due to the impact of the differences noted in the cash and cash equivalents, together with the limitations experienced as highlighted in the basis for disclaimer paragraphs, I was unable to confirm that the current and comparative cash flow statement and the notes thereto are correct. I was unable to confirm this matter by alternative means. Consequently, I was unable to determine whether any adjustments to cash flow statement were necessary.

Financial sustainability

36. Notes 1.3 and 44 to the financial statements indicate that the financial statements have been prepared on a going concern basis. The statement of financial performance for the year ended 30 June 2012 indicated that the Magareng Municipality recognised government grants and subsidies of R42 468 294. Revenue from other sources was R29 162 065 and may be inadequate to fund the annual expenditure of R83 964 289 for the year ended 30 June 2012. This resulted in the net deficit of R12 333 930 for the year ended 30 June 2012. These conditions, along with other matters, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern. The municipality did not conduct a going concern assessment as required. Consequently, I was unable to obtain reasonable assurance on the accuracy and fair presentation and disclosure of the going concern note to the financial statements.

General disclosure in the financial statements

37. Section 122(3) of the MFMA states that financial statements must be prepared in accordance with SA standard of GRAP. The financial statements submitted were not adequately reviewed, resulting in the following disclosure errors identified:
- Paragraph 32 of GRAP 1 *Presentation of financial statements* states that the carrying amounts of assets and liabilities affected by judgements must be disclosed. However, this was not disclosed in note 1.1.
 - Paragraphs 46 and 50 of GRAP 13 *Leases* require operating and finance leases to be disclosed in the financial statements. Both operating and finance leases existed at the municipality, but no disclosure were made for these leases.
 - Paragraph 4 of GRAP 100 *Non-current assets held for sale and discontinued operations* requires that non-current assets which meet the classification criteria as stated in paragraphs 10 to 12 of GRAP 100 be disclosed in the financial statements. Non-current assets which met the classification criteria were identified during the year under review but the municipality did not disclose this as required.
 - Paragraph 15 of GRAP 17 *Property, plant and equipment (PPE)* states that the item of PPE may require replacement at regular intervals and some may require less frequent replacement intervals and that the entity recognise the carrying amount of an item of PPE and costs of replacing it. Contrary to paragraph 15 of GRAP 17, the municipality did not capitalise the cost of replacement of an item of PPE valued at R950 360.
 - Paragraph 56 of GRAP 17 PPE states the residual value and the useful life of an asset shall be reviewed at least at each reporting date. Contrary to paragraph 56 of GRAP 17, the municipality did not review the residual values and the useful life of the assets for the year under review as required.
 - Paragraph 100 of GRAP 19 *Provisions, contingent liabilities and contingent assets* states that uncertainties relating to the amounts and timing of the outflows should be disclosed under provisions. However, these were not disclosed, as management did not assess these requirements.

- Municipal erfs' that were used to build social houses and had not yet been transferred at year-end was not included as inventory as per Standards of Generally Recognised Accounting Practice, GRAP 12, *Inventory*. Inventory and accumulated surplus are understated and investment property is overstated in the current and prior year. I was unable to determine the correct value of inventory to be separately disclosed in the current year as it was impracticable to do so.
- The municipality incorrectly classified investment property as property, plant and equipment. This was in contravention of the SA Standards of GRAP 16 and 17, *Investment property* and *Property, plant and equipment*, respectively. Investment property is understated by R8 511 287 and property, plant and equipment overstated by the same amount.
- Paragraphs 43 and 46 of the International Accounting Standard, IAS 39 *Financial instruments: recognition and measurement* require that receivables have to be initially measured at fair value and subsequently measured at amortised cost using the effective interest method. Interest was not levied on outstanding accounts for eight months in the prior financial year. In addition, consumer debtors were not initially measured at fair value and subsequently measured at amortised cost using the effective interest method. Due to the relevant information not being available, the total extent of this misstatement could not be determined.
- The following errors were noted with regard to the disclosure requirements of IFRS 7 *Financial instruments: Disclosures*:
 - i. No interest rate sensitivity analysis was disclosed. Consequently, the municipality also did not disclose the carrying amounts of financial instruments exposed to interest rate risk and the effective interest rates applicable in note 37.
 - ii. The amount that best represents the municipality's maximum credit exposure at year-end was not disclosed in note 37 to the financial statements.
 - iii. No disclosure was made of the fair value of each class of financial assets and liabilities in a way that permitted it to be compared to the corresponding carrying amount in the balance sheet in note 37. Consequently, the municipality also did not disclose that the carrying amounts of financial assets and liabilities approximated their fair values.
 - iv. The methods and significant assumptions used for determining fair values for the different classes of financial assets and liabilities were not disclosed.
 - v. No maturity analysis for financial liabilities that showed the remaining contractual maturities was disclosed in note 37 for liquidity risk.

Disclaimer of opinion

38. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

39. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

40. With reference to note 42 to the financial statements, the municipality is the defendant in a lawsuit. The municipality is opposing the lawsuits as it believes the contractor did not complete a tender according to tender specification. The ultimate outcome of the matter cannot presently be determined and no provision has been made in the financial statements for any liability that may result.

Impairments

41. As disclosed in notes 13 and 14 to the financial statements, material provision for impairment of debts to the amount of R41 031 661 (2011: R22 590 508) and R8 505 698 (2011: R7 777 961), respectively, was made due to the uncertainty of the recovery of trade receivables from exchange and non-exchange transactions.

Unspent conditional grants and receipts

42. As disclosed in note 7 to the financial statements, the existence of the following projects could not be confirmed: peanut oil project valued at R972 239, the taxi rank project of R983 808, the extended public works programme hospital project of R389 146 (debit) and the sports facilities project amounting to R779 143 (debit). These projects have been dormant for a number of years.

Additional matters

43. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material inconsistencies in other information included in the annual report

44. The annual report for 2011-12 had not been received at the date of this report, consequently a conclusion could not be drawn on the consistency between the financial statements and other information included in the annual report.

Unaudited supplementary schedules

45. The supplementary information set out on appendices A to D does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

46. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

47. The annual performance report included in the annual report was not presented for audit and consequently my findings below are limited to the procedures performed on the strategic planning and performance management documents.

48. The information was assessed to determine whether performance indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information* (FMPPI).

49. The material findings are as follows:

Usefulness of information

Measurability

50. The National Treasury FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.
51. The National Treasury FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 100% of the targets. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.
52. The National Treasury FMPPI requires that the time period or deadline for delivery be specified. A total of 100% of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.
53. The National Treasury FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.
54. The National Treasury FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection, collation and verification of actual performance information.

Compliance with laws and regulations

I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

Strategic planning and performance management

55. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.
56. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.
57. The municipality did not set measurable performance targets with regard to each development priority and objective, as required by section 41 of the MSA.
58. The municipality did not measure and review performance at least once per year with regard to each of those development priorities and objectives and against the key performance indicators and targets set, as required by section 41 of the MSA.

Budgets

- 59. The municipality incurred expenditure that was not budgeted for as well as expenditure in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.
- 60. The accounting officer did not assess the municipality's performance for the first half of the financial year, as required by section 72(1) and 72(1)(a)(ii) of the MFMA.

Annual financial statements, performance and annual report

- 61. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a disclaimer of opinion.
- 62. The accounting officer did not submit the financial statements for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.
- 63. The 2010-11 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
- 64. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2010-11 annual report in the council, as required by section 127(3) of the MFMA.
- 65. The accounting officer did not make the 2010-11 annual report public immediately after the annual report was tabled in the council, as required by section 127(5)(a) of the MFMA.
- 66. The accounting officer did not make public the council's oversight report on the 2010-11 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.
- 67. The annual performance report for the financial year under review was not prepared, as required by section 46 of the MSA and section 121(3)(c) of the MFMA.

Audit committees

- 68. The performance audit committee did not review the municipality's performance management system, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(ii).
- 69. The performance audit committee did not review all the quarterly internal audit reports on performance measurement, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(i).

Internal audit

- 70. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14(1)(a).

Procurement and contract management

- 71. Sufficient appropriate audit evidence could not be obtained that goods and services with a transaction value of below R200 000 were procured by obtaining the required price quotations, as required by supply chain management (SCM) regulation 17(a) & (c).
- 72. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).

73. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by inviting competitive bids, as required by SCM regulation 19(a).
74. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).
75. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality, as required by SCM regulation 27(3).
76. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
77. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality, as required by SCM regulation 28(2).
78. Sufficient appropriate audit evidence could not be obtained that contracts were awarded to and quotations were accepted from bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
79. Sufficient appropriate audit evidence could not be obtained that bid adjudication was always done by committees which were composed in accordance with SCM regulation 29(2).
80. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
81. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act (PPPFA) and SCM regulation 28(1)(a).
82. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the PPPFA and its regulations.
83. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process, as required by of section 2(1)(f) of PPPFA.
84. Sufficient appropriate audit evidence could not be obtained that contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
85. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
86. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.

87. Sufficient appropriate audit evidence could not be obtained that all extension or modification to contracts were approved by a properly delegated official, as required by SCM Regulation 5.
88. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
89. Construction projects were not always registered with the CIDB, as required by section 22 of the CIDB Act and CIDB regulation 18.
90. Sufficient appropriate audit evidence could not be obtained that contract and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.
91. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
92. A list of accredited prospective providers was not in place for procuring goods and services through quotations, as required by SCM regulation 14(1)(a).
93. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).
94. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded and quotations were accepted in accordance with the legislative requirements and that a procurement process was followed which is fair, equitable, transparent and competitive, as insufficient or no audit evidence was submitted to the auditors due to inadequate record management by the municipality.

Human resource management and compensation

95. Appointments were made in posts which were not provided for in the approved staff establishment of the municipality, in contravention of section 66(3) of MSA.
96. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of MSA.
97. An acting senior manager was appointed for a period of six months, in contravention of section 54A (2A)(a) of the MSA.
98. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.

Expenditure management

99. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
100. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.

101. The accounting officer did not take effective steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
102. Payments were made without the approval of the accounting officer or a properly authorised official, as required by section 11(1) of the MFMA.
103. Irregular and fruitless and wasteful expenditure was not recovered from the liable person, as required by section 32(2) of the MFMA.

Conditional grants

104. The municipality did not evaluate its performance in respect of programmes funded by the allocation or submit the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(6) of DoRA.
105. The allocations for conditional grants were utilised for purposes other than those stipulated in the grant framework, in contravention of section 15(1) of DoRA.

Revenue management

106. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.
107. Revenue received was not always reconciled on a weekly basis, as required by section 64(2)(h) of the MFMA.
108. The municipality contravened section 15(2) of the Electricity Regulation Act, 2006 (Act No. 4 of 2006) (ERA) by charging electricity tariffs in excess of those approved by NERSA. This contravention by the municipality may result in penalties being imposed by the Regulator in terms of section 18 of ERA.

Asset management

109. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Internal control

I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on predetermined objectives and the findings on compliance with laws and regulations included in this report.

Leadership

110. The accounting officer did not ensure that internal control procedures are developed, implemented and monitored to ensure that:
 - debtors, creditors and VAT reconciliations are performed and reviewed on a monthly basis
 - monthly financial statements are prepared and are subjected to review
 - procedures are put in place to ensure that work performed by junior officials is properly reviewed.

111. The accounting officer did not evaluate whether management had implemented effective internal controls by gaining an understanding of how senior management has met its responsibilities in terms of preparing bank reconciliations, maintaining the asset register and preparing annual financial statements.
112. The accounting officer did not implement and monitor corrective action relating to prior year's external audit findings. An action plan was not implemented based on the 2010-11 external audit findings.

Financial and performance management

113. The finance department lacked the technical understanding to prepare the financial statements. Consequently, the financial statements prepared were not fully GRAP compliant and contained numerous misstatements.
114. Requested information was not made available timeously and sometimes not at all, resulting in a limitation of scope on our audit.
115. The municipal manager did not implement performance management processes and did not delegate the function of collation of performance information to an official.

Governance

116. The accounting officer of the municipality did not ensure that a financial and risk unit was established. The municipality did not identify risks relating to the achievement of financial and performance reporting objectives. A fraud prevention plan and risk management plan did not exist. Consequently, controls were not developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives.
117. The municipality utilised the shared performance/ audit committee within the Frances Baard District Municipality. The performance/ audit committee, however, did not meet its responsibility at the Magareng Local Municipality.
118. The municipality utilised the shared internal audit unit within the Frances Baard District Municipality. This unit was not effective at the Magareng Local Municipality as the internal audit unit lacked capacity to service the local municipalities in the district.

Auditor - General

Kimberley
15 February 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence